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UNITED STATES DEPARTMENT OF AGRICULTURE
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THE COTTON SITUATION

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CS-19

Summary

Manufacturers' sales and output of cotton textiles in the United States continued on a greatly restricted basis during April and early May, reports the Bureau of Agricultural Economics. And a similar situation has prevailed in many other important raw cotton consuming countries. In most of these foreign countries, however, mill activity has been considerably higher in relation to last year and other recent years than has been true in the United States.

A substantial improvement in the sales of cotton goods by domestic manufacturers occurred during the second week of April and again about 4 weeks later. But for the 6 weeks' period from early April to mid-May, sales were apparently less than output. And the output has been about two-fifths less than the unusually high level of a year earlier, and the lowest for the period since 1932. The continued low level of sales resulted in a 13-percent decline in the seasonally adjusted index of domestic cotton consumption from March to April.

Despite the rather marked decline in cotton consumption and sales of finished goods by domestic and foreign mills since November, and even though the 1937 crop turned out considerably larger than estimated at that time, domestic cotton prices during the first 3 weeks of May were for the most part about 1 cent per pound above those in the first week of November.

Prices of some of the important competitive foreign growths, however, have shown much less strength than American cotton. Consequently, the competitive position of American is much less favorable now than in the earlier part of the

season. The current price relationships of these growths, however, are about equal to the average for the 10-year period 1923-32. Despite the material change in the relative prices of domestic and foreign cotton in the past several months, American cotton is still more favorably priced from the standpoint of encouraging consumption of American cotton than during most months of the past few years.

Exports so far this season, beginning August 1, have been slightly larger than a year earlier, and an encouraging improvement was noted in March and April. Exports of 377,000 bales of American cotton in April were slightly larger than in April last year and 25,000 bales larger than exports in April 2 years ago. But during the first half of May exports dropped about 30 percent compared with early May last year. Exports to Japan so far this season have been nearly 60 percent below a year earlier, even though mill consumption in that country has been fairly well maintained. Our cotton exports to Japan picked up considerably in the past few months.

The first official report of acreage of cotton in cultivation in this country will be issued by the Bureau July 8. At the present time, however, the national acreage allotment under the Agricultural Conservation Program is estimated at about 28 million acres. This compares with the final estimate of 34,001,000 acres harvested in the United States last year. The Bureau's final estimate of the 1937 crop was placed at 18,946,000 bales, and of the per-acre yield at 266.9 pounds.

A recent report from Shanghai indicates a reduction of from 40 to 50 percent in the 1938 cotton acreage in China, with the greatest decreases expected in north China.

PRICES

Domestic cotton prices strengthened considerably during the second and third weeks of April with Middling 7/8 inch in the 10 markets advancing from 8.43 cents on April 7 to 9.05 cents on April 21. The price on April 21 was the highest for more than a month and was 1-1/3 cents above the low point reached in the early part of November. In late April domestic prices declined considerably and in the first 3 weeks of May the daily average price in the 10 markets was, for the most part, a little below 8-3/4 cents. Current prices are approximately 1 cent per pound or 14 percent higher than those of early November.

In view of the rather substantial decline in general economic conditions in the United States and many foreign countries since November, and the increase in the estimated supply of American cotton, domestic cotton prices might have been expected to decline following November even though there was some reduction in the estimates of the supply of foreign cotton as the season progressed. During the current season, however, the Government-loan program has withdrawn more than 5 million bales of the 1937 cotton crop from marketing channels. In addition, it seems quite likely that the enactment of the Agricultural Adjustment Act of 1938 with its provisions pertaining to the 1938 crop has also had an important effect upon cotton prices.

Partly as a result of the factors tending to strengthen domestic cotton prices and partly as a result of the decline in demand for foreign cotton there has been a rather substantial change in the ratio of the price of American cotton to that of most foreign growths during the past few months.

On May 20 the Liverpool prices of three types of Indian cotton (Oomra, Broach, and Sind) averaged only 81.6 percent of the price of American Middling and Low Middling compared with an average of 86.0 for the 7 months August through February and with 87.9 percent in November. The current average price relationships of these growths are about equal to the average for the 10-year period 1923-24 to 1932-33. In November, however, the Liverpool price of American in relation to Indian was more favorable from the standpoint of encouraging increased use of American cotton than for nearly 5 years. On May 20 the Liverpool price of Uppers was lower relative to American Middling 7/8 inch than for more than a year and lower than the average for the above 10 years. In the early part of the current season, however, Uppers was higher priced relative to American Middling 7/8 inch than for more than 10 years. Despite the rather material change in these relative prices in the past several months, American is still lower relative to several of the important foreign growths than during most months of the past few years.

EXPORTS

Exports of American cotton in April totaled 377,000 running bales, according to a preliminary report of the Bureau of the Census. This quantity was only slightly larger than the 373,000 bales exported in April 1937, but 25,000 bales larger than exports in April 1936. In February and March, exports were 18 and 9 percent, respectively, lower than a year earlier. In March and April, therefore,

a considerable improvement was noted in the relation of exports of the current season with those of the corresponding period last season. During the first half of May, however, exports were about 30 percent smaller than a year earlier.

In view of the rather marked decline in cotton consumption in foreign countries during the past several months, the more favorable showing during March and April offhand might seem particularly encouraging. It should be remembered, however, that the 1937-38 domestic supply of American cotton was about one-fourth larger than that of the previous season and prices so far this season have been 15 to 37 percent lower than in the corresponding months of last season. Furthermore, during the past 2 months, exports to Japan were only 60,000 bales (or 21 percent) less than in March and April last year, whereas during the first 9 months of the season total exports to Japan were 800,000 bales (or 59 percent) below a year earlier. It is expected that, during the remainder of the season, exports to Japan will make a more favorable showing in relation to a year earlier than was the case during the first 6 or 7 months of the season, inasmuch as the unusually large August 1 stocks in Japan have been reduced to about the minimum even for the current restricted rate of consumption. The showing, however, may not be nearly so favorable as in March and April.

For the 9 months ended April 30, total domestic exports amounted to 5,034,000 bales compared with 4,762,000 bales from August 1936, through April 1937. During this 9-month period, exports to the United Kingdom totaled 1,473,000 bales which was 450,000 bales or 43 percent larger than exports in the first 3 quarters of the 1936-37 season. Exports to France, Italy, Germany, and a number of other countries were slightly to substantially higher than in the corresponding period last season. A large part of the increased exports to these countries, however, was offset by the decline of approximately 300,000 bales in exports to Japan.

DEMAND AND CONSUMPTION

UNITED STATES: Manufacturers' sales and output of cotton textiles continue on greatly restricted basis

Despite the improvement in manufacturers' sales of cotton textiles in the first half of April, it appears from trade reports that, for the month as a whole, such sales were probably no more than -- and may have been less than -- the greatly restricted production. The same appears also to have been true for the first half of May, even though a substantial improvement in sales was noted in the second week of May.

Total United States mill consumption of raw cotton in April amounted to 414,000 bales. This was 42 percent less than in April 1937 and the lowest for that month since 1932. The Federal Reserve Board's index of cotton consumption in April, adjusted for seasonal variation, was 77 percent of the 1923-25 average. This was 13 percent less than that for March and 47 percent under the high point in December 1936. Consumption from August through April totaled 4,438,000 bales which was 1,600,000 bales or 26 percent less than the record

consumption in the first 9 months of last season. Last month it was stated that it seemed quite likely that the average daily rate of consumption for the remainder of the season would be within 10 percent of that for March and if so, domestic consumption for the 12 months ended July would total between 5,700,000 and 6,100,000 bales. And this seems to be a reasonable expectation in view of developments during the past month.

EUROPE: 1/ Cotton textile sales and output reduced; stocks larger

April reports from European cotton industry centers have been of an unfavorable tenor. The most common cause of complaint has been the growing evidence of receding export demand for finished goods, which has led to keener competition, price cutting, increasing stocks of goods, and, in some countries, to further recessions in mill activity.

The United Kingdom:- The cotton industry in Great Britain during April experienced lower prices, diminished mill employment and much smaller deliveries to spinners. Deliveries were smaller in volume than in any April since 1931. At the reduced prices now prevailing, however, inquiry for goods was slightly improved, at least for the home trade and occasionally for the export trade as well. But the general export outlook is far from encouraging, both for demand and competition. Spinners appear to have sold a relatively small part of their full-time production in April, although mainly because of reduced output unsold yarns are not believed to have accumulated as rapidly during the month as was true a month or two earlier.

American cotton in Great Britain has not felt the impact of the adverse developments in recent months to the same extent as other growths. Nearly half of the volume of cotton delivered to British spinners during the past 9 months has been American. The exceptionally heavy imports and stocks of American cotton are an indication that spinners will continue to use liberal proportions of American during the coming months.

Current statistical indicators show definite deterioration in the demand situation in the United Kingdom. Weekly forwardings of cotton to mills in April fell to the levels expected in the dull weeks of summer, and in the middle weeks of April were at a rate less than half that of a year ago. Unemployment in the cotton textile industry further increased in the face of a slight improvement in the country's industries as a whole, and further stoppage of mills was reported.

1/ Based largely on a report prepared by Lloyd V. Stoerc, Agricultural Attache, Berlin, Germany, May 5. Information on the United Kingdom supplied by C. C. Taylor, Agricultural Attache, London.

Another unfavorable development during the month was an increase in Egyptian duties on imported textiles ranging from 70 to 100 percent, which for the time being has brought new business with that country virtually to a standstill. Although the volume of imports of British cotton textiles into Egypt was second to Italian, Egypt in 1937 ranked fifth among British export markets for cotton piece-goods. The tariff increases have occasioned concern for the future of the trade, and representations to the British Government have been made in an effort to bring about a reconsideration of the Egyptian action.

Also of importance is the announcement by the Board of Trade of April 13 that:-

"In connection with the negotiations for a new trade agreement between the United Kingdom and India, a delegation representing the United Kingdom cotton industry are leaving for India on the 21st of April at the invitation of the Government of India, to enter into discussions with the unofficial advisers to the Indian Trade Delegation with a view to arriving at a basis of agreement which would be satisfactory to the cotton industries of the two countries and which could be submitted for the consideration of the two Governments."

Germany.- Reports from the German cotton textile industry showed a continued high level of activity in March and early April and an active demand from the home market. Manufacturers of staple fabrics largely consumed by low-income groups even indicated an "extremely strong and pressing demand" beyond their capacity to satisfy on the basis of existing raw material quotas. More variable conditions exist in the specialty branches, particularly those influenced by seasonal factors; but unsatisfactory reports are rare.

On the other hand, signs of less favorable developments in export business were reported. April reports indicated a rather general recessive tendency in both new orders for export and in calls under old contracts. The small volume of new business booked was at very unsatisfactory prices and under pressure of increasingly strong competition from countries with depreciated currencies.

Germany has striven with marked success during the past 3 years of textile raw material shortage to build up cotton textile exports to help provide foreign exchange to buy raw material. In 1937, her exports of finished and unfinished cotton cloth were sufficient to cover 40 percent (1936, 35 percent) of her outlay for imports of cotton, cotton waste and reclaimed cotton. And if cotton textile exports should suffer a serious curtailment, a renewal of tension in the German raw material situation, which existed prior to the past several months, might easily result.

The Austrian textile industry, under the merger of Austria with Germany, has been suddenly confronted with the necessity of adjustment to a completely new set of circumstances in all its branches. In the first place, it has been flooded with a wave of orders and inquiries from Germany, and what appears to be a sudden surge of domestic buying in anticipation of possible shortages incident to the incorporation into Germany. As a result, the larger firms are reported to be reserving a portion of their output for old customers and accepting new German business with a certain reserve and an eye to its possible permanency. In the second place, the industry has had to begin immediate preparations for early adjustment to entirely new raw material supply conditions. The situation seems to be uncertain in view of the difficulty of placing Austrian spinners at once upon a parity with German spinners. Finally, trade and distribution are reported to be in a disorganized state because of the wholesale introduction of a maze of new regulations and restrictions affecting both domestic and export business, and by the drive to eliminate Jews from the textile trades in which they have long played a leading role.

Czechoslovakia.- Information available during April on recent developments in the cotton industry was rather generally unfavorable in tenor, and textile circles are pessimistic about the outlook. The index of cotton spinning activity dropped from 90 in November to 74 in January, and it is reported that still further declines occurred in February and March. It is further reported that April apparently brought little improvement. The decline in textile exports that began late in 1937 has continued, and a further recession is regarded as more or less inevitable as a result of the Austrian "Anschluss". Egypt's recent large increase in cotton goods duties is also regarded as a heavy blow to Czech print goods.

Some seasonal improvement was recently experienced in the garment trades and other specialties, and more is expected, but otherwise there seems little ground for encouragement. The textile industry regards the betterment of Czech-German trade arrangements as a first essential for halting the recent drop and bringing about a recovery. The Czech industry above all is concerned with maintaining its extensive trade in both semi-finished and finished goods with former Austria - though it obviously fears that at least a part of this must be regarded as lost.

Czechoslovakia has concluded a trade agreement with Turkey, effective May 1, 1938. In the new agreement, cotton yarn is removed from the free list and in the future can be sold to Turkey only on a barter basis against cotton. The Turkish import contingent for Czechoslovakian cotton goods was likewise increased by about 30 percent. The treaty furthermore permits private barter transactions in Czechoslovakian cotton and wool goods outside of the contingent against Turkish cotton, wool, mohair, and eggs. It is to be assumed that this agreement will have at least some effect in the direction of increasing Czechoslovakian imports of Turkish cotton. But it may also tend to reduce exports from Turkey to other countries.

France.— French cotton spinners found most of April a calm month for new business, with production tending to outrun orders and deliveries. As a result, stocks tended to rise. During the second half of the month prices declined, and this brought a certain amount of buying that enabled some mills to reduce stocks. Hand-to-mouth business, however, continues to characterize the situation in yarns.

The cloth mills seem to have done generally better business than the spinners during April, even in the second half of the month. Export business was sporadically active, notably in colored fabrics, with French weavers apparently enjoying a certain advantage over other countries as a result of the downward drift of the franc. Prices, however, though steady, have not been satisfactory, and competition was obviously keen.

Italy.— The latest information indicates that the Italian cotton industry, after reaching record levels of activity in late 1937 and early 1938, is probably headed for something of a recession in the near future unless an early and marked improvement occurs in export and domestic demand for cotton goods.

The demand outlook, however, is not encouraging, either at home or abroad. Italy appears to be facing a poor year, agriculturally, in the northern parts that will almost certainly depress home trade to an appreciable extent. An unprecedented drought that will greatly reduce cereal yields throughout the north has been accompanied by several periods of freezing temperatures that have taken heavy toll among Italy's important fruit and vegetable industry in that area, which is the most important part from an agricultural and population standpoint. In the central and southern regions, conditions appear to be more normal.

The export outlook likewise is not encouraging, mainly because of the prospects for a period of materially increased competition from other cotton textile exporting countries. Reports from England, Germany, Czechoslovakia, Belgium, and France all point to the increasing difficulty of export sales, and to price cutting or at least great pressure on prices. Moreover, demand is tending to dwindle in some export markets incident to trade recession. And special circumstances in some countries are unfavorable from an Italian standpoint, such as Egypt's recent large increase in duties on cotton goods. The market outlook in the Balkans is also regarded as affected by Germany's growing influence in that area.

These factors thus seem to point to decreased consumption and imports of raw cotton in coming months. The likelihood of a decrease in consumption is also strengthened by the steadily increasing substitution of other fibers for cotton, the development of which is strikingly shown in the accompanying table.

Italy: Quantity of cotton and other fibers used in weaving mills,
monthly averages, specified periods

	Cotton		Artificial fibers		Other fibers		Total
Period	:As a per-:		:As a per-:		:As a per-:		
	: Actual	:centage	: Actual	:centage	: Actual	:centage	: Actual
	:of total:		:of total:		:of total:		
	:1,000 lb.	Pct.	1,000 lb.	Pct.	1,000 lb.	Pct.	1,000 lb.
1934 ...	19,691	88.8	1,556	7.0	925	4.2	22,172
1935 ...	19,925	84.1	2,152	9.1	1,616	6.8	23,693
1936 ...	15,170	73.5	3,446	16.7	2,012	9.8	20,628
1937 ...	16,025	62.5	6,160	24.0	3,466	13.5	25,651
January::							
1937 ...	14,383	66.1	4,956	22.8	2,420	11.1	21,759
1938 ...	14,725	60.7	6,843	28.2	2,685	11.1	24,253

Furnished by the American Consulate, Milan, quoting Bollettino Mensile, supra p. 207.

The U.S.S.R.-The output of the cotton textile industry of the U.S.S.R. during the first 3 months of 1938, is reported to have lagged. The quarterly plan is reported to have been executed only to 88 percent, with total output reported 118,700,000 yards short of the plan. The plan, therefore, was apparently about 988,000,000 yards and the actual output approximately 869,300,000 yards. Output during the same 3 months last year was estimated at 715,000,000 yards.

ORIENT: Situation in China improves, mill activity in India high
but developments in Japan continue unfavorable

China, 2/ including Manchuria.- The Bureau's Shanghai office reports a slight gain in cotton mill activity in China during April. Total mill consumption of raw cotton was estimated at 120,000 bales compared with 110,000 bales in March and 85,000 in January. The estimated consumption in April is equivalent to an annual rate of 1,440,000 bales, assuming no seasonal variations and no variation in the number of working days per month. This compares with an estimated mill consumption of nearly 3,100,000 bales during the 12 months ended July 1937 and is much higher than the average annual rate existing during the first 8 months of the season.

The Shanghai yarn market was rather strong during April, especially for yarn produced by Chinese mills. As a result, the Chinese mills at Shanghai and Hankow were reported as having made exceptional profits. Most of the Chinese yarn was shipped to South China and a part of it is said to have found its way some distance into the interior. The yarn pro-

2/ Based largely on radiograms received on May 12 and 13 from the Shanghai office of the Bureau of Agricultural Economics.

duced by Japanese mills in China was mostly shipped to North China with only a small amount being exported to the South or to foreign ports. Some progress is said to have been made during April in rehabilitating damaged Japanese mills.

Total stocks of raw cotton at Shanghai at the end of April have been estimated at 200,000 bales which it is estimated is equivalent to 3 months' consumption at the existing rate. All but 20,000 bales of this cotton was estimated to have been grown in China. Chinese cotton continued to arrive at Shanghai in small quantities, most of which came from areas occupied by the Japanese. The unsettled condition made transportation very difficult and irregular.

The American Consul at Tsingtao reports that a group of 12 Japanese firms dealing with cotton have formed an association called the Tsingtao Cotton Traders' Association, its main purpose being to develop cotton production in Shangtung and control the exports of cotton to Japan. The authorized capital of this Association is 500,000 yen (\$145,000). The Association, it is reported, has been buying some cotton from Shangtung farmers, at prices reported to be around 20 percent less than for the 1936 crop.

Reports continue to indicate a material reduction in the 1938 Chinese cotton acreage with recent estimates ranging from 50 to 60 percent of last year's acreage. The greatest decreases are expected to occur in North China in the areas of present hostilities. In the event the 1938 acreage is reduced 40 to 50 percent from that of 1937, the decline in production might more than offset the increase in carry-over on August 1, 1938.

India.- Cotton mill activity in India continued high through April. The 190,000 equivalent 478-pound bales of Indian cotton used last month were 4 percent larger than in April 1937 and established a new high for that month. This made the tenth consecutive month in which the quantity of cotton used exceeded that of any corresponding month on record. For the 9 months, August to April, cotton mills in India used 1,765,000 bales (equivalent 478 pounds each) of Indian cotton compared with 1,540,000 bales in the like period last season. In view of the record established during these months, it seems quite likely that consumption for the 12 months may establish a new high for the August-July season. It is not expected, however, that consumption in the last quarter of the season will be as favorable as in the first 3 quarters. The highest consumption for any season thus far was in 1935-36 when 2,150,000 bales (equivalent 478 pounds) of Indian cotton were consumed.

The high level of Indian mill consumption during the current season has been due, in part, to reduced imports of cotton piece goods. Total imports of all kinds of piece goods (excluding fents) into India, excluding Burma, in February, the most recent month for which data are now available, were 1 percent larger than a year earlier, but 20 percent less than in February 1936. For the 7 months ended February they were 4 percent less than a year earlier and 23 percent less than 2 years earlier.

Japan 3/.-Reports indicate that Japan's difficulty in obtaining foreign exchange with which to purchase raw cotton and the difficulties encountered in selling cotton textiles for export, continued to restrict the consumption of raw cotton by Japanese mills during April, compared with the early part of the season and with a year earlier. Since no improvement in this situation seems likely during the months immediately ahead, it is expected that consumption will continue on a restricted basis throughout the remainder of the season.

The reported production of yarn by Japanese mills indicates that mill consumption of raw cotton in April totaled about 255,000 bales of 478 pounds. This appears to be about 8 percent larger than the quantity consumed during each of the 2 preceding months, but about one-fourth less than in the corresponding period last year and 22 percent lower than the average consumption during the first quarter of the current season. Despite the fact that consumption during the remainder of the season may average about one-fourth less than during the corresponding period last season, total consumption for the 12 months ended July seems likely to total about 3,300,000 bales or slightly more. This is only 10 percent less than in the 1936-37 season. Exports of cotton cloth from Japan in April were 8 percent more and 7 percent less, respectively, than in April 1937 and April 1936. For the 9 months August through April, however, total cloth exports were only 1 percent less than in the corresponding period of the preceding season.

SUPPLY

AMERICAN COTTON

The revised acreage and production estimates as released by the Crop Reporting Board May 25, placed the 1937 United States production at 18,946,000 bales of 500 pounds gross (478 pounds net) compared with the December estimate of 18,746,000 bales, a revision of 1 percent. The estimate of the area harvested was revised from 33,930,000 acres, as estimated in December, to 34,001,000 acres, with the final estimate of yield per acre placed at 266.9 pounds.

These estimates are shown in comparison with final estimates for several earlier years in the accompanying tabulation.

Crop year	: Production	: Acreage : : planted	: Acreage : : harvested	: Yield per acre : harvested
	: 1,000 bales of	1,000	1,000	
	: 500 lbs. gross	acres	acres	Pounds
5-yr. average	:			
1928-32	14,667	41,424	40,541	173.9
1933	13,047	40,248	29,383	212.7
1934	9,636	27,360	26,866	171.6
1935	10,638	28,197	27,640	184.2
1936	12,399	30,903	30,028	197.6
1937	18,946	34,471	34,001	266.9

3/ Based primarily on radiograms of May 18 and 20 and from the Bureau's Shanghai office giving data furnished by American Consul Kenneth C. Krantz at Osaka.

The most recent trade estimates of probable 1938 cotton acreage are about in line with the revised acreage allotment of the Agricultural Adjustment Administration. Private estimates of the United States acreage released since the first of May, fall between 28 and 29 million acres. This compares with the most recent estimate (which is still only preliminary) of the national acreage allotment, as determined under the provisions of the amended Agricultural Adjustment Act of 1938, of 28,000,000 acres. The acreage allotment is 19 percent less than the 1937 planted acreage and 18 percent less than the 1937 harvested acreage. It is 32 and 31 percent, respectively, less than the estimated average acreage planted and harvested during the 5 years 1928-32. Other comparisons may be made from the above tabulation. The first official report of cotton acreage in cultivation in the United States will be issued by the Crop Reporting Board on July 8.

The U. S. S. R.- The cotton planting campaign is now well underway, with the latest figures indicating about 37 percent of the plan put in by the middle of April as compared with 19 percent by the same date a year ago, or 1,905,000 acres, as compared with 986,000 in 1937, 1,166,000 in 1936 and 1,018,000 acres in 1935.

April weather conditions were reported favorable, with warm or hot weather throughout the month, contrary to last year when a sudden return of cold weather damaged early planted fields. Rapid melting of the mountain snow is also reported, which is important as a source of water for the irrigation system.

China.- According to a recent report from Agricultural Commissioner J. L. Dawson at Shanghai, the indications are that the 1938 Chinese cotton acreage will be very materially reduced. It is stated that recent estimates indicate an acreage only 50 to 60 percent as large as the 1937 acreage. The greatest decreases are expected to occur in North China. (See pages 9 and 10 for a more complete discussion.)